

TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Lump Sum Death Benefit
Rate for 2001-02

ITEM NUMBER: 5

ATTACHMENT(S): 2

ACTION: X

MEETING DATE: June 7, 2001

INFORMATION:

PRESENTER: Rick Reed

SUMMARY

A lump sum death payment is payable to the beneficiary upon the death of an active or retired Defined Benefit (DB) Program member under certain conditions specified in statute. Section 23801 of the Education Code provides for payment of a \$5,000 death payment to the beneficiary of an eligible deceased member who had coverage under the Family Allowance program (Coverage A) of the DB Program. Section 23851 provides for payment of a \$20,000 death payment to the beneficiary of an eligible deceased member who had coverage under the Survivor Benefit program (Coverage B) of the DB Program. Finally, Section 23880 provides for payment of a \$5,000 death payment to the beneficiary of an eligible deceased retired member. Each of these three sections permit the Teachers' Retirement Board (Board) to "adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index" (CCPI). The death benefit for active Coverage A members and retired members is \$5,763 in 2000-01, and the current death benefit for active Coverage B members is \$23,052.

The initial death payment amounts were established by legislation in 1992, and were adjusted to the current amounts after the June 30, 1999 valuation. Increasing the death benefit payments to reflect changes in the CCPI between December 1999 and December 2000 would increase the death benefit by about 4.29 percent. The CalSTRS' consulting actuary determined in the attached report that, based on the June 30, 2000 actuarial valuation, which was updated to reflect the 2000 benefit enhancements, adjusting the current death benefit payment amounts to reflect inflation would have an immaterial impact on the funding of the program, equal to a present value of \$15 million.

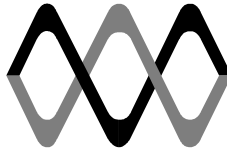
Therefore, the consulting actuary recommends the Board consider adopting an increase in the death payment amounts that reflects the change in the All Urban CCPI since the last adjustment, as follows:

	2000-01 (Current)	2001-02 (Proposed)
Retired or in Coverage A	\$5,763	\$6,010
Coverage B	\$23,052	\$24,040

To be consistent with the implementation of other rates and amounts subject to adjustment by the Board, it is recommended these amounts be implemented effective July 1, 2001.

RECOMMENDATION

Staff recommends that the Benefits and Services Committee recommend to the Board that it adopt the adjusted lump sum death payment amounts, as recommended by the consulting actuary, to be effective July 1, 2001.



MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants

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May 14, 2001

Mr. Rick Reed, Actuary
Office of the Actuary
State Teachers' Retirement System
P.O. Box 15275
Sacramento, California 95851-0275

RE: LUMP SUM DEATH BENEFIT LEVELS

Dear Rick:

Under certain conditions, lump sum death benefits are payable to the beneficiaries of CalSTRS members. The lump sum death benefit levels were established in 1992 without an automatic cost-of-living adjustment. The benefit structure was specifically designed to address the Older Workers' Benefit Protection Act and to be "cost neutral" between Coverage A and Coverage B. An automatic escalation of the lump sum payments was not possible because of the actuarial cost of such a provision. Therefore, the ad hoc approach was developed so that an increase could be granted after each actuarial valuation at the discretion of the Retirement Board.

Education Code sections 23801(c), 23851(c), and 23880(b) provide that the Retirement Board "may adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index." Now that we have completed the 2000 Actuarial Valuation of the Defined Benefit Program, it is appropriate for the Retirement Board to consider such an adjustment to these lump sum death benefits.

Since the actuarial valuations are performed as of June 30, but are typically not completed until the following calendar year, a measuring period for inflation has been used that ends in December of the valuation year, rather than as of the valuation date. The death benefit levels were changed by statute effective on October 16, 1992, and to the levels shown in the following table by Retirement Board actions after each subsequent actuarial valuation. We also show a recommended level of benefits as of July of 2001.

Effective Date	Measurement Date	California CPI	<u>Lump Sum Death Benefit Amounts</u>		
			Retired Members	<u>Active Members</u>	
				Coverage A	Coverage B
<u>Previously Adopted:</u>					
October, 1992	October, 1992	147.5	\$ 5,000	\$ 5,000	\$ 20,000
July, 1994	December, 1993	150.7	5,110	5,110	20,440
July, 1996	December, 1995	154.2	5,227	5,227	20,908
July, 1998	December, 1997	162.0	5,493	5,493	21,974
July, 1999	December, 1998	165.1	5,598	5,598	22,394
July, 2000	December, 1999	170.0	5,763	5,763	23,052
<u>Recommended for Adoption:</u>					
July, 2001	December, 2000	177.3	\$ 6,010	\$ 6,010	\$ 24,040

The recommended amounts were developed from the following formula:

$$\text{July, 2001 Amount} = \$5,000 \times \frac{\text{December 2000 CCPI}}{\text{October 1992 CCPI}} = \$5,000 \times \frac{177.3}{147.5} = \$6,010$$

By convention, we have rounded the result to a whole dollar amount and set the Coverage B level to four times the Coverage A level.

Since the law states the Board "may" adjust the amounts, the drafters of the legislation clearly did not intend the adjustment to be automatic. By implication, the adjustment would be granted by the Retirement Board only if the System could afford to do so.

Based on the results of the 2000 Actuarial Valuation (adjusted to reflect the 2000 Benefit Enhancement), we estimate the increase in the Actuarial Present Value of Projected Benefits will be about \$15 million if the recommendation is adopted. Based on the current rounding convention, the changes would not produce an increase that would be significant enough to impact the final calculation of the Normal Cost Rate.

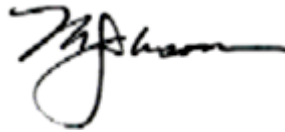
(\$millions)	Before Adjustment	After Adjustment
Actuarial Obligation	\$ 98,730	\$ 98,745
Actuarial Value of Asset	<u>102,225</u>	<u>102,225</u>
(Actuarial Surplus)	\$ (3,495)	\$ (3,480)
Normal Cost of Benefits	16.423%	16.423%

Mr. Rick Reed
May 14, 2001
Page 3

The adoption of the recommended adjustment to the lump sum death benefit levels will have very little impact on the funding of the Defined Benefit Program. Therefore, we recommend that the Board consider the adoption of an increase in the lump sum death benefits as described in this letter pursuant to the authority stated in Education Code sections 23801(c), 23851(c), and 23880(b).

If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Johnson', with a stylized, flowing script.

Mark O. Johnson, F.S.A.
Consulting Actuary

MOJ:j

cc: Ed Derman
John Presley
Susan O'Farrell

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
BENEFITS AND SERVICES COMMITTEE

SUBJECT: Adoption of Lump Sum Death Benefit Rate
for 2001-02 Fiscal Year

RESOLUTION NO. _____

WHEREAS, the Teachers' Retirement Law permits the Teachers' Retirement Board to adjust the death payment amounts pursuant to Sections 23801, 23851 and 23880 of the Education Code following each actuarial valuation, based upon changes in the All Urban California Consumer Price Index, and

WHEREAS, the Consulting Actuary has completed an Actuarial Valuation of the Defined Benefit Program as of June 30, 2000 and

WHEREAS, the Consulting Actuary has further determined that an inflationary adjustment to the death payment amounts at this time would have an immaterial impact on the funding of the Defined Benefit Program; therefore, be it

RESOLVED, that the Benefits and Services Committee recommend to the Teachers' Retirement Board that, effective July 1, 2001, the lump sum death payment payable pursuant to Section 23801 of the Education Code on account of the death of an eligible member under Coverage A, be increased to \$6,010; that the death payment payable pursuant to Section 23851 on account of the death of an eligible member under Coverage B, be increased to \$24,040; and that the death payment payable pursuant to Section 23880 on account of the death on an eligible retired member, be increased to \$6,010.

Adopted by:
Benefits and Services Committee

Ratified by:

Teachers' Retirement Board
on June 7, 2001

JAMES D. MOSMAN
Chief Executive Officer